Q. Please state your name and business address.

A. My name is Craig P. Johnson. My business address is 201 South Main, Suite 2300, Salt Lake City, Utah.

Q. Briefly describe your educational background, professional training and experience.

A. I graduated from Brigham Young University in 1981 with a Bachelor of Science Degree in Accounting. After working at General Telephone, I joined PacifiCorp in 1984. My assignments at the Company have included working in the Regulation, Financial Planning, and Financial Analysis departments. At present I am a Regulatory Consultant. My primary responsibilities include preparing rate cases and analyzing regulatory issues facing the utility.

Q. What is the purpose of your testimony?

A. My testimony explains the revenue requirement impact of the sale of water rights and related assets of the Naches and Naches Drop hydroelectric generating stations (the "Naches Project" or "Project") and describes the anticipated benefits to customers from the sale of the Naches Project.

Q. What is the current and future cost of generating power from the Naches Project?

A. During 2001, the average cost of energy generated was approximately $46 per megawatt hour ("MWh"), according to a Company busbar report. Looking forward, the base case assumptions explained in the testimony of Mr. Landolt indicate the future 30-year levelized cost of energy will increase to approximately $65 per MWh.

Lower energy production volume combined with increasing costs are expected to sharply increase the future unit cost of power from the Naches Project.

Q. Are there benefits to PacifiCorp customers if the assets are retained?

A. Based on the Company analysis, the answer is no. Although the Naches Project generated benefits for customers for many years, today it appears that those benefits are diminishing. The Naches Project is a run-of-river project. Naches is a small hydro project. It is not equivalent to large projects like those on the Lewis and Umpqua Rivers, which provide valuable peaking power and generate relatively large amounts of energy compared to the fixed cost of operations. It has no storage or reservoir to provide energy at peak periods more than the normal seasonal streamflow. The cost of operating Naches is expected to increase. The future unit cost of generation is not cost competitive. Continued ownership of the Naches Project results in future customers of PacifiCorp paying prices for energy that exceed the market. A sale of Naches is expected to benefit customers by lowering future revenue requirements.

Q. What is the revenue requirement impact of selling the water rights and associated assets of the Naches Project?

Selling the water rights and associated assets of the Naches Project is expected to lower the future revenue requirement $5.9 million in present value. Retaining the Naches Project is likely to be more expensive than selling the resource and acquiring an equivalent amount of energy at market prices. As Mr. Cunningham and Mr. Landolt explain, the future cost of operating the Naches Project, particularly the exposure of added FERC licensing costs, along with expected lower levels of generation to comply with environmental requirements to improve salmon and steelhead habitat on the Naches River are likely to diminish the economics of generating power from the Naches Project. The base case assumptions of stable operating costs and lower power generation contrasted with future power prices show that selling the water rights and related assets of the Naches Project will lower the present value of the total Company revenue requirement. The present value of the annual revenue requirement was calculated to operate the Naches Project for 30 years. This is compared with the present value of the revenue requirement of purchasing energy in the marketplace for the same time period. The present value of purchasing energy is less than operating the generator by $5.9 million.

To test the robustness of the financial analysis, the Company also evaluated the financial outcome of three alternatives to the base case assumptions. A summary of the revenue requirement in present value dollars for the base case and alternative analyses is provided in Exhibit ___ (CPJ-1). Mr. Landolt explains the assumptions underlying the base case. Alternative 1 is based on the same assumptions as the base case, except it has the relatively optimistic assumption that capital expenditures are less than those in the base case. Alternative 2 varies two assumptions from the base case. It assumes FERC licensing costs of $1 million and about 2% less MWh generation than the base case. Alternative 3 varies three assumptions from the base case. It assumes FERC licensing costs of $1 million, plus about 2% less MWh generation and lower capital expenditures than in the base case. Based on all of these alternatives, I conclude that if, as expected, future costs increase and energy production decreases, selling the water rights and associated assets of the Naches

Project is the preferred option. Only Alternative 1 suggests a slight economic cost to selling the assets. However, when all the alternative assumptions are weighted with an equal probability, it appears that selling the water rights and assets related to the Naches Project benefits customers more than retaining the assets and running the risk of FERC licensing costs and operating restrictions.

Q. What is the revenue requirement benefit in Washington?

A. As shown in Exhibit ___ (CPJ-1), the base case assumptions indicate a total company benefit of approximately $5.9 million in present value terms. Washington's allocated share of that benefit is approximately $504,000. In addition to the dollar benefit, the Company expects that the benefits to the fish habitat on the Naches River will be significant as a result of this transaction. This is explained in detail in the testimony of Mr. Esget. The United States Bureau of Reclamation ("Reclamation") plans to increase stream flows in the original river bed are expected to produce environmental benefits not accounted for within the financial analysis presented in this testimony.

Q. Will the sale of assets produce a gain?

A. Based on estimates of the appraised real estate purchase price and other transaction costs, it is estimated that the sale price will produce a slight after-tax gain of approximately $74,000. Exhibit ___ (CPJ-2) shows the calculation of the estimated gain. These preliminary figures may change depending upon when the sale actually occurs and the appraised value of the real estate involved in the transaction.

Q. Does this conclude your direct testimony?

A. Yes, it does.